

Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 LISBON 07729 091732Z

47

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SSO-00 INRE-00 NSCE-00 USIE-00

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 ERDE-00 XMB-02 FRB-03 /100 W

----- 030383

O 091700Z NOV 76 ZFF-4

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 9139

C O N F I D E N T I A L LISBON 7729

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ECONOMIC AND POLITICAL IMPLICATIONS
OF OIL PRICE INCREASE

REF: STATE 274224

1. A SHARP RISE IN CRUDE PETROLEUM PRICES WOULD SERIOUSLY IMPEDE PORTUGAL'S EFFORTS TO CORRECT ITS MASSIVE EXTERNAL DEFICIT AND TO AVOID GALLOPING INFLATION. A PRICE INCREASE OF 10 PERCENT WOULD ADD SOME \$60 MILLION TO THE IMPORT BILL; ONE OF 20 PERCENT, GIVEN RELATIVE DEMAND INELASTICITY, WOULD ADD MORE THAN \$100 MILLION. PORTUGAL, ALREADY UNDER HEAVY PRESSURE TO REDUCE ITS CURRENT ACCOUNT DEFICIT, WOULD HAVE NO PROSPECT OF AUGMENTING ITS EARNINGS TO OFFSET HIGHER PETROLEUM OUTLAYS. IT WOULD, INSTEAD, SEEK GREATER FOREIGN CREDITS, AN EFFORT THAT MAY BE EXTREMELY DIFFICULT GIVEN THE NATION'S RECENT POLITICAL/ECONOMIC HISTORY AND ITS PERSISTENT BALANCE OF PAYMENTS DEFICIT. PORTUGAL WOULD TEND INCREASINGLY TOWARD TIGHTER CONTROL OF ITS TRADE AND CAPITAL ACCOUNTS, PARTICULARLY IF ITS ACCESS TO INTERNATIONAL CREDIT MARKETS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 07729 091732Z

2. ANOTHER MAJOR PETROLEUM PRICE INCREASE WOULD, FOR

SEVERAL REASONS, HAVE A DISPROPORTIONATELY LARGE IMPACT ON DOMESTIC PRICES. FIRST, THE RIGID MARKET STRUCTURE WOULD TEND TO TRANSFER THE ENTIRE PRICE HIKE ONTO THE DOMESTIC ECONOMY. SECOND, THE NATION'S HEAVY DEPENDENCE ON IMPORTED PETROLEUM WOULD GENERATE SIGNIFICANT SECONDARY AND TERTIARY PRICE EFFECTS. THIRD, GOP EFFORTS TO CONSERVE EXCHANGE BY CURBING IMPORTS OF NON-PETROLEUM PRODUCTS WOULD STIMULATE SHARP PRICE RISES FOR THOSE GOODS. THE RESULT WOULD BE A PRECIPITOUS ELEVATION OF THE DOMESTIC PRICE STRUCTURE, WHICH IS CONSERVATIVELY ESTIMATED TO BE RISING AT AN ANNUAL RATE OF 20-25 PERCENT.

3. SUCH A DETERIORATION OF THE ECONOMIC SITUATION WOULD HEAVILY IMPACT ON PORTUGAL'S POLITICAL DEVELOPMENT. IT WOULD, BY ENCOURAGING EXTREMISTS ON BOTH ENDS OF THE POLITICAL SPECTRUM, SERIOUSLY HAMPER THE NATION'S PROGRESS TOWARD A FREE, DEMOCRATIC POLITICAL STRUCTURE. PORTUGAL MIGHT NOT PUBLICLY CRITICIZE THE PRICE INCREASE BECAUSE IT REALIZES ITS INABILITY TO AFFECT THE DECISION, BUT IT WOULD HEARTEDLY RESENT IT. IF GOP CANNOT QUICKLY TAP ARAB FINANCIAL SOURCES TO OFFSET PRICE INCREASES, ITS DISAPPOINTMENT AND ITS DISTASTS FOR THE PRICE DECISION MAY STIFFEN ITS RESOLVE TO ESTABLISH DIPLOMATIC RELATIONS WITH ISRAEL BY EARLY 1977. ON THE OTHER HAND, GOP WOULD LIKELY SET UP EFFORTS FOR CLOSER RELATIONS WITH VENEZUELA, BOTH TO ASSURE A STEADY SUPPLY OF CRUDE OIL AND DIMINISH, AT LEAST POSTPONE, THE PRICE INCREASES'S BALANCE OF PAYMENTS EFFECTS.

CARLUCCI

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, PRICE INDEXES, ECONOMIC ESTIMATES, FINANCIAL TRENDS, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LISBON07729
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760417-0581
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761167/aaaacgcp.tel
Line Count: 89
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 274224
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 MAY 2004 by BoyleJA>; APPROVED <30 AUG 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND POLITICAL IMPLICATIONS OF OIL PRICE INCREASE
TAGS: ENRG, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006